Russia abolishes 30% penalty tax rate on dividends – good news for investors in depositary receipts referencing Russian shares

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In brief

Effective January 1, 2015, Russia will eliminate the 30% penalty tax rate on dividends payable on the shares of Russian issuers recorded through depositary programs and other accounts of foreign intermediaries. This rate currently applies when information about the beneficial owners of dividends is not disclosed in due course to a Russian tax agent. With the change, the maximum Russian withholding income tax rate on dividends will be 15%.

In detail

Federal Law No. 366-FZ of November 24, 2014, "On Amendments to Part II of the Russian Tax Code and Certain Legal Acts of the Russian Federation," abolishes the 30% withholding income tax rate on dividends. Although most of this law is dedicated to changes in the taxation of oil and gas companies, it includes important amendments to the financial sector.

The 30% withholding tax rate currently applies to income from securities issued by Russian organizations and recorded on depositary accounts of foreign nominal holders, depositary accounts of foreign authorised holders, or accounts of depositary programs when paid to entities for which the necessary information was not provided to the tax agent in accordance with the requirements of the Russian Tax Code. This penalty tax rate can apply to dividends payable on depositary receipts, and in some cases to interest income paid on certain local bonds, which are held on accounts designated for foreign intermediaries, rather than securities owners.

Effective January 1, 2015, the above requirement will not apply to dividends. We understand that, even when information about the beneficial owners of dividends is not disclosed, the 15% tax will be levied on dividend payments. The 30% rate still may apply to other types of income on securities of Russian issuers, such as interest on bonds in certain cases.

The new law also raises the tax rate on dividends received by Russian individuals or legal entities residing in Russia from 9% to 13%.

The takeaway

After Russia introduced the 30% withholding tax penalty rate effective January 1, 2014, foreign investors faced issues regarding application of new information disclosure requirements for the penalty rate not to apply. In the worst cases, investors were charged 30% tax on...
dividends instead of the standard 15%. This issue should be eliminated after the tax law changes discussed above enter into force.

Let’s talk
For a deeper discussion of how this might affect your business, please contact:

International Tax Services, United States
Elena Liaskovskaia
(646) 471-5515
elena.liaskovskaia@us.pwc.com

Financial Services, Russia
Maria V Stepanova
maria.v.stepanova@ru.pwc.com